

1956 Council of Europe Development Bank 2006

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Council of Europe Development Bank

The social development bank in Europe

1956 2006

CEB
COUNCIL OF EUROPE DEVELOPMENT BANK
BANQUE DE DEVELOPPEMENT DU CONSEIL DE L'EUROPE

Foreword

“Since its creation, the history of the CEB has been closely linked with that of Europe. In the future, the Bank will continue to maintain a fair balance between social mandate and financial soundness, while remaining fully faithful to its original vocation.”



Raphaël Alomar,
Governor of the Council of Europe Development Bank.

Since its creation fifty years ago, the history of the Council of Europe Development Bank (CEB) has been closely linked with that of Europe. The “Iron Curtain” that came down on Europe at the start of the Cold War was, in effect, at the very origin of the Bank's creation. Likewise, the reunification of the continent undertaken as of 1989, symbolised by the fall of the Berlin Wall, gave the institution a new impetus.

This anniversary therefore provides an opportunity to re-situate the history of the CEB, the longest standing development bank in Europe, in its historical context and to retrace the changes that the institution has undergone since its creation. This is the subject of this short work, written by a team of historians, the contents of which I shall now endeavour to briefly present.

The Council of Europe Development Bank has it origins in the political upheavals that Europe experienced following the Second World War. The brutal installation of authoritarian regimes to the East of the “Iron Curtain” triggered a flood of political refugees into Western Europe and, in particular, in Germany. In the face of this tragic problem, Pierre Schneiter, Special Representative of the Council of Europe for National Refugees and Over-Population, was entrusted with a mission of reflection. He proposed a flexible financial framework, namely the creation, by members of the Council of Europe, of an autonomous social institution with the legal capacity to borrow and to contribute to the financing of projects providing for the resettlement of refugees. And so was born the Council of Europe Resettlement Fund for National Refugees and Over-Population in Europe, the first of the Council of Europe's Partial Agreements, signed by eight countries on 16 April 1956.

Endowed from the start with an exclusively social vocation, the new organisation was born of very modest beginnings since not only were the founding countries few in number, but the initial capital amounted to less than seven million dollars.

During the first years, the institution's geographical scope and financial capacities thus developed very gradually. Nevertheless, by the time the Resettlement Fund reached its twentieth anniversary, Pierre Schneiter could congratulate himself on observing that the Fund now had fourteen member states and own assets representing three times the initial subscribed capital. Moreover, the Fund enhanced its social mandate during that period by extending the scope of its action to include populations affected by natural disasters.

Since then, the institution has been striving to make an ever increasing contribution to strengthening social cohesion in Europe. Following the reunification of the continent started in 1989 and led by a new management team put in place in 1994, the institution has undergone a profound transformation, within the framework of policies approved by the Governing Board and the Administrative Council. In particular, it has consolidated its financial base, as shown by the capital increase carried out in 1999 and the triple AAA rating it has enjoyed since 2000. At the same time, it has reformed its operating methods, as illustrated by the creation of the Selective Trust Account in 1995 and the revision of its Articles of Agreement that came into force in 1997. Lastly, it has carried out a redeployment of its activity, as evidenced by the significant increase in the number of its member states, from 21 to 38, and the spectacular growth in its operations in the Central and Eastern European countries.

The institution has thus become a true development bank, as illustrated by the change in its title in 1999. Since that date, it has been known by the name of Council of Europe Development Bank (CEB), reflecting both its banking nature and its social vocation. Indeed, it was to the institution's transformation into a

fully fledged development bank that the member states paid tribute when, in 2004 and 2005, they renewed the mandates of all the members of its elected management team.

Thanks to the constant support of its member states, to the impetus given to it by the management team I have led since 1994, to the enthusiasm of my colleagues the Vice-Governors and to the exemplary commitment of its staff, the CEB has undergone a profound transformation since its creation, and particularly in the last ten years. Nevertheless, I feel it is important to highlight the continuity of the institution's action throughout its history, over and above the very many changes it has known. In effect, for fifty years, it has remained faithful to two founding principles. On the one hand, the Bank has always considered the social mandate governing its activity to be intangible, in accordance with the values of the Council of Europe. On the other hand, the CEB has determinedly striven to guarantee the financial security of its operations, thereby maintaining strict budgetary autonomy.

Endowed with the means with which to pursue its development, the Bank will continue to maintain a fair balance between social mandate and financial soundness, while remaining fully faithful to its original vocation.



Raphaël Alomar

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Introduction

The Council of Europe Development Bank

(CEB) celebrates this year the fiftieth anniversary of its creation. Its history has been very largely intertwined with that of contemporary Europe. The division of Europe at the end of the Second World War and beginning of the Cold War that led millions of people to seek refuge in the West of the continent was, in effect, at the very origin of the institution's creation. Later on, the growing interdependence between the North and the South of the continent, as evidenced in particular by major migratory flows, gave a new impetus to the organisation. Finally, following the fall of the Berlin Wall, the return to Europe of the regions that had been separated from it by the "Iron Curtain" led to the CEB's transformation into a true development bank. The gradual process of unification of the European continent during the past fifty years has thus been accompanied by growing solidarity between the countries belonging to the Council of Europe. This solidarity found concrete expression in the action of the Council of Europe Resettlement Fund for National Refugees and Over-Population in Europe, which was later to take the name Council of Europe Development Bank.

The action conducted by the institution, created on the initiative of Pierre Schneiter, has evolved throughout its history in order to adapt to the needs of the moment. Initially, the objective was essentially to provide assistance to populations forced to flee from regions affected by political or economic upheavals, and to help those driven from their homes by natural disasters. Today, while remaining faithful to its priority missions, the CEB's focus is on contributing more generally to strengthening social cohesion among its member states and, more particularly, in the Central and Eastern European countries. Nevertheless, one single line of focus has characterised the CEB from the beginning. This is to give those concerned by its operations the means with which to carry out their own social and economic integration for themselves. "The Fund helps people who are standing on their own feet"[1], declared Eugène Claudius-Petit, Chairman of the



Pierre Schneiter, Special Representative of the Council of Europe for National Refugees and Over-Population and Chairman of the Governing Body from 1956 to 1976.



Eugène Claudius-Petit, Chairman of the Governing Body from 1979 to 1989.

Institution's Governing Body between 1979 and 1989. An exemplary illustration of the Bank's attachment to promoting individual initiatives can be found in its cooperation with the associations of “beavers”, those Italian immigrant workers who contributed their own work to the construction of dwellings for which they themselves were the loan beneficiaries.

It is this history, with its many changes but also with its continuity, that this book endeavours to retrace. In the course of its half century of activity, the CEB has gone through four major periods. The creation of the Resettlement Fund, in 1956, was the result of the reflections conducted since the creation of the Council of Europe, seven years earlier, on what aid should be given to the refugees. Up until the mid 1970s, the institution experienced modest beginnings, marked by a determined effort to reconcile a broadened social mandate with strict financial rigour. The first increase in its capital, decided in 1977, combined with the accession of new member states, announced the start of a phase of growth in its activities, which nevertheless remained largely targeted to Southern Europe. Finally, the years 1990-2000 saw the institution's transformation into a true development bank in a reunited Europe.







■ Civilians fleeing the Soviet occupation of Poland, Berlin, Germany, 1945.

■ Inaugural session of the Hague Congress, Netherlands, 7 May 1948.

■ Council of Europe, Strasbourg, France, 1949.

1956: creation of the Resettlement Fund, an instrument dedicated to refugees

1

The creation of the Resettlement Fund

in 1956, following that of the Council of Europe, came within the vast movement of unification that spread through Western Europe in the aftermath of the war. As an expression of European solidarity towards those people driven from their regions of origin by the upheavals of the XXth century, the Resettlement Fund's mandate was to contribute to the relocation of refugees. Placed under the supreme authority of the Council of Europe, this socially-oriented instrument was created as a legally and financially independent entity with its own governance structure.

At the origin of the Resettlement Fund: the Council of Europe

The trauma caused by the Second World War gave a fresh impetus to the aspirations for unity that had emerged among a section of European public opinion between the two wars. The intention of the Western European states was, in effect, to rebuild their ruined economies, but also to preserve the western concept of democracy from the risks of the spread of communism. The United States supported this desire for European unification through economic aid symbolised by the Marshall Plan, launched in 1947. Thus, it was the reflections on the establishment of economic and political unity in Europe that were at the origin of the first European organisations.

European cooperation was first launched at economic level with the creation of the Organisation for European Economic Cooperation (OEEC), on 16 April 1948. Originally grouping together 18 participants, its task was to coordinate American economic and financial aid and to reduce exchange barriers. This cooperation in economic matters was soon to be extended to cooperation in the field of defence. Following the Prague Coup in February 1948, which marked the communist take-over in Czechoslovakia, the United Kingdom, France, Belgium, the Netherlands and Luxembourg signed the Brussels Pact, on 17 March 1948. Enlarged to include the United States, Canada and several other European countries, this pact, which organised collaboration in matters of defence for



■ **Arrival of the first ship chartered within the framework of the Marshall Plan, Bordeaux, France, 1948.**

these countries, was at the origin of the creation of the North Atlantic Treaty Organisation in 1949.

Very quickly, however, the European countries sought to broaden their cooperation to encompass the political sphere. To promote this project, a vast congress of all the main European political movements was held in The Hague in May 1948. The political Commission of this congress, chaired by the Frenchman Paul Ramadier, proposed that the process of political unification be organised around an Assembly composed of members of parliament representing the peoples of Europe. In July of that same year, the French Minister of Foreign Affairs, Georges Bidault, took up the idea and presented it to his Brussels Pact partners. His successor, Robert Schumann, gained the support of Belgium, the Netherlands and Luxembourg. And so, on 5 May 1949, the Council of Europe was born. It grouped together ten countries (the Brussels Pact Five plus Italy, Ireland, Denmark, Norway and Sweden). Under the aegis of its first President, the Belgian Paul-Henri Spaak, the founding member states made a commitment to ensuring respect for human rights and basic liberties and also to promoting economic and social progress.

From its very first sessions, during the summer of 1949, the Council of Europe constituted a forum for debate among ministers, parliamentarians and representatives of European movements. The organisation also strove to implement concrete cooperation between its members in fields such as social security, health and culture. At the same time, it very quickly sought to widen its membership. Greece and Turkey joined in the summer of 1949,

followed by Iceland and Germany in 1950. The Council of Europe thus gradually became the symbol of the aspirations for unity of a Great Europe.

One field in which the Council of Europe has always been very active is, of course, the defence of human rights. Thus, on 4 November 1950, a Convention for the Protection of Human Rights and Fundamental Freedoms was signed in Rome by the ten member states. Effective as of September 1953, this Convention promoted respect for private life, the right to safety, as well as freedom of thought, religion, expression, reunion and association. A European Human Rights Commission and a European Court of Human Rights, composed of lawyers acting independently of states, were also created. Finally, in 1961, a Social Charter was adopted to protect the economic and social rights of European workers (right to work, to social security, to collective bargaining, etc.).

It was within the framework of these actions in favour of human rights and the improvement of living conditions that a commission was set up within the Council of Europe Secretariat to study the question of over-population and national refugees in Europe.

An instrument dedicated to refugees

The refugee question

The human toll of the Second World War was overwhelming: some 50 million people died, four times as many as in 1914-1918. And to these victims must be added another disastrous human consequence: vast transfers of population. There were an estimated 30 million displaced persons both during and after the fighting.

The war and the events that led up to it thus gave rise to wide movements of population. There was, for example, the case of the Volksdeutsche, minorities of German origin from the South Tyrol, the Baltic Countries, Croatia and Bulgaria, who returned to Germany. There was also the exodus of the Czechs from the Sudet region annexed by Germany following the Munich Agreement in 1938.



■ **Civilians fleeing the advance of Soviet troops, Poland, 1944.**

Later, the settlement of the conflict and, in particular, the new borders drawn at the conferences of Yalta and Potsdam in 1945, brought about very substantial movements of population. Germany had to take in refugees from the former German territories now situated in Poland as well as from the Sudet region situated in Czechoslovakia. Italy, for its part, lost the territories that it had annexed since the beginning of the XXth century and its possessions on the Adriatic coast. The refugees that it received were fewer in number than in Germany, but they arrived in a country which was economically in ruins and faced with significant social tensions in the North as well as desires for secession in Sicily, Sardinia, the Julian Veneto and in the Valle d'Aosta.

Finally, it is important to note that the context of the Cold War and, to use the words pronounced by Winston Churchill on 5 March 1946, the creation of an “Iron Curtain”, also added to the migratory currents in Europe. Thus, the partition of Germany in 1949 triggered a significant migratory movement from the East to the West of the country. A census carried out in July 1952 showed there were some 10 million refugees from the East among the West German population.

■ Creation of a dedicated instrument

As of its very first sessions, during the summer of 1949, the Council of Europe's Consultative Assembly expressed interest in the fate of the national refugees, that is to say “persons who have become refugees in their own countries for various reasons,



■ **Address by Winston Churchill, Strasbourg, France, 1946.**

which may be political or geographical (eg natural disasters)"[2]. In effect, these populations did not receive any aid from the United Nations (UN) or from the International Refugee Organisation (IRO), and the number of refugees in Council of Europe member countries alone was estimated at 12 million in 1949, including almost 10 million Germans.

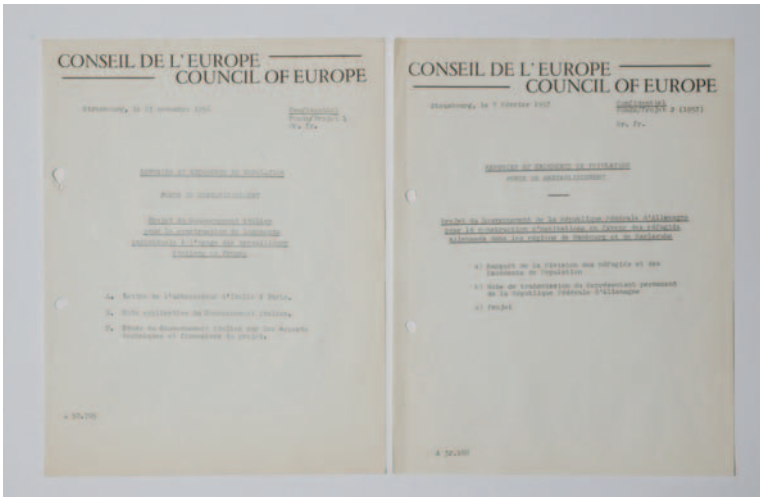
The Council of Europe member states were also particularly concerned with the question of natural over-population, essentially present in Italy and in Greece, both countries with high birth rates and endemic unemployment. In effect, these excess populations led to an increase in the number of "persons who are homeless, jobless and often untrained, who for a long time have been forced […] to leave their countries, becoming migrant workers and abandoning their culture, family and friends to settle in highly industrialised countries in need of manpower"[3].

Faithful to its social mission, the Council of Europe was anxious to improve the material and moral situation of these populations. However, its objective was not merely humanitarian. The aim was also to avoid the political and social instability that the precarious situation of these populations could engender. The Council of Europe's idea was moreover to transform the potential risk posed by these populations into opportunity, in the conviction that "it is by developing opportunities for work and employment that we can also develop the prospects of a whole country"[4].

So, in June 1951, the Council of Europe set up an Expert Committee, composed of representatives from the member states, but also representatives from international organisations such as the International Labour Office (ILO), and the OEEC. The Committee's task was to study the exact situation of the refugees in each country and to put forward recommendations. From this study, there thus emerged three main ideas:
– "to supply them with a home and employment on the national territory;
– to encourage migrations between European states with the object of achieving a more rational distribution of population in such states; and
– to facilitate emigration overseas, so far as this still proves necessary"[5].

However, the major difficulty was that of financing the initiatives that were to be implemented. Some countries acted on their own, for example, by creating a specialised bank such as the Bank for the Expellees and War-Damaged Persons in Germany, or by providing such populations with a house and some land, as was the case in Turkey. But faced with the sheer scale of the needs, additional and coordinated sources of financing were clearly required. The members of the Expert Committee therefore suggested the creation of a European branch of the World Bank that could grant loans in favour of national refugees and excess populations. But, above all, they insisted on the coordinating role that the Council of Europe could play in this field thanks to the special relations it enjoyed with the governments of its member states and with certain international organisations.

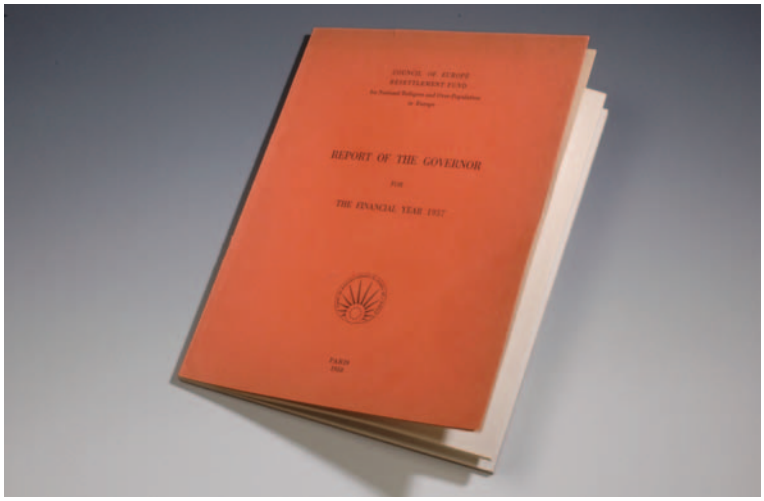
On the strength of these recommendations, in December 1953, the Council of Europe appointed a Special Representative for these questions. The man chosen was Pierre Schneiter, former French Health Minister and future President of the French National Assembly. In the course of 1954, he presented a comprehensive programme of action which stressed the need to coordinate international aid in order to welcome the new immigrants in the best possible conditions, and the need to facilitate vocational training in order to enable the populations to emigrate more easily, not only within Europe but also overseas; it also recommended the creation of a European body to implement these ideas and the creation of a Fund to grant loans for the purpose of settling the national refugees and absorbing the excess populations.



■ **First projects approved by the Administrative Council in 1956 and 1957.**

It was on these last financial questions that the members of the Council of Europe were divided. A number of them considered that the national governments should themselves take action to solve this problem. Others felt that substantial expenditure had already been made in this area and that the budgets, already suffering from the post-war reconstruction effort, could not support any further burden. Others were of the opinion that the European countries, which depended massively on American financial aid to reconstruct their economies, did not have the necessary means with which to act on a purely European scale in this area.

The Council of Europe Resettlement Fund for National Refugees and Over-Population in Europe nevertheless came into existence on 16 April 1956. Its creation was the object of a Partial Agreement between 8 of the 15 Council of Europe members: Belgium, France, Greece, Germany, Iceland, Italy, Luxembourg and Turkey. As its name indicated, the purpose of this socially oriented instrument was to contribute to financing projects leading to the resettlement of refugees and to the absorption of excess populations in Europe. Coming within the context of the European unification process, this six-year gestation period illustrated a real determination to cooperate over and above inevitable divergences of opinion.



■ **First Report of the Governor, 1957.**

The Resettlement Fund

■ Legal framework

The Articles of Agreement of the Fund provided for it to be placed under the supreme authority of the Council of Europe while the Third Protocol to the General Agreement on Privileges and Immunities of the Council of Europe made provision for the institution to have its own legal personality, like other comparable financial institutions. This legal framework, which remains valid today, was designed to enable the new institution to have access to the financial markets and to exercise its own independent judgement on the requests for financing that were submitted to it.

■ Member states

A country that is a member of the institution subscribes participating certificates whose number is established in agreement with the Governing Board, previously known as Governing Body. The country that subscribes these certificates may make its payment in several instalments and, initially, had to pay up one quarter of the amount at the time of accession.

Any of the other Council of Europe member states may join the institution. To do so, they must make a request to the Committee of Ministers in which they agree to adhere to the



Headquarters of the Council of Europe, Strasbourg, France, 1956.

institution's Articles of Agreement. The Governing Board establishes the number of certificates that any one candidate country must hold in order to become a member based on the number of certificates held by the founding members and on a comparison of the respective economic situation of each member state. Non Council of Europe member states and international institutions with a European focus may also join the institution, on conditions laid down by the Governing Board.

Governance organs

The Resettlement Fund's headquarters were established in Strasbourg and its administrative services located in Paris, where they remain today. Since its inception, the institution's organisation, administration and control have been entrusted to four organs.

The Governing Board consists of a Chairman and one representative for each member state. It sets out the general orientations for the Bank's activity, lays down the conditions for Bank membership by other states, decides on capital increases, and approves the Governor's annual report, the accounts and the Bank's general balance sheet. It elects its own Chairman and the Chairman of the Administrative Council and appoints the Governor and the members of the Auditing Board.

The Administrative Council also consists of a Chairman and one representative for each member state. It exercises all the powers delegated to it by the Governing Board,



■ **Headquarters of the CEB, Paris, France.**

establishes and supervises operational policies, approves investment projects submitted by the governments. It votes on the Bank's operating budget. Its Chairman is elected by the Governing Board.

The Governor is the Bank's legal representative. He is the head of the Bank's operational services and responsible for the Bank's staff under the general supervision of the Administrative Council. He conducts the Bank's financial policy, in accordance with Administrative Council guidelines, and he represents the Bank in all its transactions. He examines the technical and financial aspects of the requests for financing submitted to the Bank and refers them to the Administrative Council.

The Auditing Board is composed of three members appointed by the Governing Board. It certifies the annual accounts, after they have been examined by an external auditor.







■ Cypriot refugees following unrest, Nicosia, Cyprus, 1964.

■ Construction of the Berlin Wall, Germany, August 1961.

■ "Beavers" village, Savoie region, France, 1957.

From the mid 1950s to the mid 1970s: modest activity growth in “Little Europe”

2

The Resettlement Fund started from modest beginnings, as evidenced by the small size of its initial capital endowment. Thanks to its rigorous management and reactive borrowing policy, it nevertheless succeeded in gradually developing its lending activity, in certain cases at subsidised rates. As of its very first years, the Fund was thus in a position not only to provide assistance to refugees, in compliance with its statutory priorities, but also to widen its scope of action. In effect, it rapidly became apparent that it could not restrict itself to providing humanitarian aid to refugees, but that it also had to respond to the other needs of its member states in the social field.

Gradual development

Low initial capital

The Resettlement Fund's capital was constituted on the basis of subscriptions by the member states. At the start, it amounted to 6.7 million dollars, corresponding to the participating certificates of the eight founding member states. At the time of the Fund's creation, 25 % of the subscribed capital was paid up, and the remaining 75 % was fully paid up as of 1960. This capital enabled the Fund to borrow the means it required to carry out its first operations. In effect, the capital was for the most part invested in member states' government securities, which served as a guarantee for the Fund's first borrowings.

During the first years of the Fund's activity, the modest nature of the initial endowment, which stood in sharp contrast to the scale of the needs, had a determining influence both on its volume of activity and on its management methods.

In effect, it very quickly limited the Fund's financing activity, since the institution's capacity to finance its loans was proportional to the volume of its own resources. As of the very first years of activity, the Fund's Governor therefore proposed increasing the institution's capital. The member states, however, were not prepared to go in this

direction. Consequently, from 1956 to 1976, the Resettlement Fund's capital merely increased as new countries joined: Cyprus in 1962, the Holy See and Malta in 1973, Switzerland in 1974, Liechtenstein and Portugal in 1976. By the end of 1976, the corresponding subscriptions had enabled the Fund's capital to reach the still very modest amount of 7.3 million dollars.

The very modest nature of the initial endowment also had an impact on the way the Fund was managed. On the one hand, within the framework of its lending activity, it forced the management to ensure it obtained particularly strict guarantees. On the other hand, as of the very first years, it led to the introduction of a policy of constituting reserves through the accumulation of profits. Thanks to this, by the end of 1976, the accumulated reserves had reached over 14 million dollars, thereby doubling the capital. This policy consolidated the Fund's credit in the financial markets and enabled it to develop its lending activity accordingly.

A reactive borrowing strategy

From its inception, it was planned that the Fund should obtain the resources it needed for its lending activity in the capital markets, either by issuing bonds through bank syndicates or through private investment in national markets. The Fund thus adapted its borrowing strategy to the opportunities available both on the international market and on the national markets open to its activity.

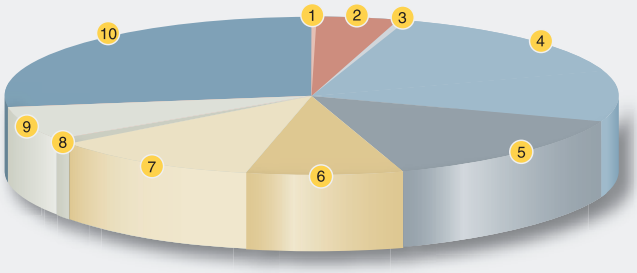
The Fund's first issues were made in the newly emerging eurodollar market that still did not bear that name. They were made through pioneer banks in that market such as the Banque Lambert in Brussels which launched the Fund's first issue in June 1958, for an amount of 2 million dollars at 5 %. A new operation of the same type for an amount of 10 million dollars was carried out by an international syndicate headed by that same bank in April 1959: the offer was taken up in just one day. The bonds thus issued were quoted on the stock exchanges in Frankfurt, Berlin, Düsseldorf and Brussels. The servicing of the interest was carried out by a group of German, French, Belgian, Italian, Luxembourg and American banks. The Fund's reputation quickly grew, as evidenced by the fact that, as of 1959, the bonds it issued were admitted as covering assets for

German insurance companies, whose investments were closely monitored by the financial authorities. A third issue for an amount of 10 million dollars was made in April 1961 by a syndicate broadened to include the most prestigious and most active British establishments in the euromarket such as Rothschild's and Warburg's.

The following years saw the start of diversification in matters of maturities and currencies. Medium-term borrowings were carried out in 1962 then 1964, the latter being made in marks. This latter currency served once again as support, alongside the dollar, for an issue launched in 1965. In all, in the first ten years of its activity, the Fund achieved a volume of issues of over 40 million dollars and was able to borrow almost 7 million dollars in the medium term for a volume of own assets amounting to 8.4 million dollars.

As of 1966, the increase in interest rates in the international markets had a negative effect on the development of the Fund's activity. Since potential borrowers considered the interest rates to be too high for the financing of social projects, the Fund was forced into a period of virtual inactivity. This situation continued into 1967 and 1968, years in which the market conditions did not allow any operation to be made. The Fund thus sought funding in national financial markets with fully sufficient capital and offering acceptable interest rates. The German market was used in 1969 and again in late 1970 through insurance companies, whereas the Swiss market was called upon in 1971. The drop in interest rates during the second half of 1972 allowed for the issue of 4 borrowings, including one operation carried out in marks for a group of Japanese banks. In 1973, it was the turn of the eurosterling market to be used for the first time, for an amount of 2 million pounds. Lastly, an issue in Luxembourg francs was launched in 1974.

The Fund's capacity to call on the capital markets was also linked to its steadily growing reputation. In effect, this significantly impacted on the conditions the Fund had to meet in order to borrow. The first operations thus required the setting up of collateral which committed a large amount of capital. Little by little, the amount of collateral required decreased and finally disappeared. In all, the steady increase in its reserves combined



1	Belgium	1	6	Iceland	23
2	Cyprus	26	7	Italy	29
3	France	1	8	Malta	3
4	Germany	51	9	Portugal	19
5	Greece	38	10	Turkey	70

Loans disbursed between 1956 and 1976 in million euros.

Total amount equivalent to 259 million euros.

with its growing reputation enabled the Fund to achieve an ever increasing borrowing capacity. This capacity represented 5.6 times the capital in 1972, and by the end of the 1970s had reached 15 times the own assets. Thanks to this increasing borrowing capacity, the Fund was able to dispose of the resources it required to develop its lending activity. In all, in its first twenty years of activity, the Fund lent an accumulated amount of 226 million dollars, spread over 57 projects in nine countries of operations.

Loans with appropriate terms

The Resettlement Fund's loans were granted either directly to a member state or to a private or public body, whether a territorial authority or a bank. The actual loan requests, however, were presented by the member states through their respective permanent representatives at the Council of Europe. The application files had to describe exactly how the project fitted into the economy of the region concerned, present a financing plan and carry sound guarantees. The loan applications were examined by the competent services at the Fund and then by those of the Council of Europe, mainly in respect of their admissibility and their compliance with that institution's political and social objectives, before being submitted to the Administrative Council, which either gave its agreement or not, according to the case.

The loan interest rates changed according to the terms on which the institution obtained its resources in the financial markets. For borrowers, however, the loans were advantageous because the rates were always lower than those they could obtain elsewhere, owing to its low intermediation margin. They were medium or long-term loans, with maturities of between 5 and 15 years, with the possibility of deferred amortisation.

Once the projects had been approved by the Administrative Council, the borrowers committed themselves to using the funds according to the objectives set forth in the loan contract. Information concerning project implementation was principally based on elements of information provided by the governments concerned. Initially, procedures were thus light and flexible, well adapted to a small-scale structure whose activities were relatively modest and concentrated on three or four countries. They were in line with the Fund's concern to keep its administrative costs to a minimum in order not only to reduce its intermediation margin as much as possible but also to make a profit from which to feed its reserves.

From the very first years, the low level of the Fund's initial capital endowment and the need to procure the major part of its resources through borrowings posed problems when potential borrowers felt that the interest rates were too high for the financing of social projects. Forced into virtual inactivity in 1966 by the increase in rates, the Fund was led to reflect on how it conducted its activity. Indeed, its social purpose appeared to be in contradiction with financial rigour: "With regard to its objectives, one of the Fund's major difficulties is still to reconcile its social role, which it would like to be able to expand, with the financial strictness dictated by its modest resources"[6].

The idea of loans at subsidised rates was put forward as early as 1967: "The object of these proposals is to utilise, when interest rates are at a level higher than those acceptable to the majority of our borrowers, a fraction of the profits of the Fund to lower the interest rate on loans, not in the form of rebates which would be incompatible with the Articles of Agreement and would besides amount to a mortgage on future, and therefore uncertain, profits, but to use the profits to make loans at nil or much reduced rates, complementary to loans at normal market rates"[7].

Thus, in 1968, a provision earmarked for financing loans at subsidised rates was constituted by drawing on the profits: from 200 000 dollars that year, it rose to 500 000 dollars the following year and then to 750 000 dollars in 1970. These social loans operated like a subsidy that the Fund allocated to a borrower in order to compensate the difference between the market rate and the 1% rate applied for this type of loan. The reserves constituted by the Fund in respect of the social account were in turn invested in the markets and the interest received used to feed these reserves.

Nevertheless, the limits of such a policy were clear from the start: to commit all the profits to this policy would be to put the Fund's future in jeopardy since part of the profits had to go to increasing the reserves, thereby guaranteeing the Fund's future borrowing capacity. There was lively discussion within the Fund's directing bodies as to the share of the profits to be allocated to this type of loan. The debate continued for several years, but the practice in the 1970s was to devote less than one third of the annual profits to such loans so as not to jeopardise the Fund's future.

The question of eligibility also had to be decided: to which countries were these loans to go? The option chosen as of 1972 was to grant loans to all the Fund's member states taking into account a whole range of factors: gross national product (GNP) per capita, number of inhabitants in the countries concerned, social impact of the project, contribution of the beneficiaries to the Fund's resources, etc.

The first social loan, in 1970, was concerned with rehabilitating areas of insalubrious housing in Ankara and Istanbul. It resulted from a combination of a loan of 2 million marks at 8.75 % and a second loan for the same amount at 0.75 % with an interest-rate subsidy. The interest rate for the whole operation thus averaged out at 4.75 %. In 1971, two new operations were carried out. One, amounting to 1.6 million Swiss francs, was for the reconstruction of villages destroyed by landslides in Cyprus. The other operation consisted of a loan of 2.4 million Swiss francs to finance housing for foreign workers in France. In all, over 5.1 million dollars were disbursed in social loans between 1956 and 1976, for the most part in favour of the less advantaged countries in Southern Europe: Cyprus, Greece, Malta, Portugal and Turkey.

A broader scope of action

Priority missions

Determined to act where the needs of refugees and surplus populations were most acute, during the first years of its activity the Fund had to focus the greater part of its loans on four countries.

First of all, Germany because of the large number of refugees from the countries of Eastern Europe and the very substantial material destruction the country had suffered during the war.

There was also Italy, because of its natural over-population and the massive influx of refugees. These came firstly from Fiume, Istria and the Trieste region, by then part of Yugoslavia, and from the islands of the Dodecanese including Rhodes, ceded to Greece. There were also Italians returning from Ethiopia and Albania, both of which had regained their independence, as well as from the former colonies entrusted to the United Nations (Libya, Eritrea and Somalia).

Greece was also considered as a priority country by the Fund for the same reasons as Italy, namely the combination of over-population and an influx of refugees, in a country devastated by numerous conflicts.

Lastly, Turkey, which had to absorb excess elements of populations as well as recurrent influxes of refugees. Faced with an annual population growth rate of 2.5 %, the country had to deal with a substantial influx of workers into urban areas while endeavouring to preserve existing jobs in rural areas. It also had to help the victims of earthquakes and, from the 1920s, settle the refugee populations from Bulgaria, Greece, Romania and Yugoslavia resulting from the various conflicts and tensions that affected the Balkans.

Although, during the first years of its existence, the Fund granted the major part of its loans to these countries on account of their urgent needs, it was also determined to



Building in ruins, Berlin, Germany, 1945.

provide aid, wherever necessary, to refugees present on the territories of other member states. Thus, in 1974, the Fund contributed to helping the 200 000 refugees who sought to flee the conflict that divided the island of Cyprus, a member of the Fund since 1962.

The integration of refugees in host areas essentially involved the construction of housing at a time when it was in short supply throughout Europe. Germany received a substantial amount of this type of financing in the form of loans granted to specialised public bodies such as Deutsche Pfanbriefanstalt or Deutsche Landesrentenbank. The Fund's operations were at first situated in various regions of Germany, but in the early 1960s they were concentrated on the Berlin region, which was the point of arrival for refugees up until the construction of the Berlin Wall.

In Turkey, the projects financed in 1957 illustrate the policy conducted by this country which combined the construction of housing, the granting of land, which was starting to be improved, and vocational training. The combination of means that this example represents illustrates the wide range of actions that the Fund undertook once the difficulties specific to the post-war period had largely been solved. In 1968, the Fund's report was in effect able to legitimately state that “the integration of national refugees in the economies of their respective countries can be considered to have been successfully accomplished thanks to the efforts of the national communities and on a more modest scale the supplementary activity of the Fund”[8].

Diversification of the activity

Although, in compliance with its statutory priorities, the Fund provided assistance to refugees, from the very first years of its existence it also broadened its scope of action. Indeed, it quickly became apparent that it was not enough merely to provide humanitarian aid to refugees but that it also had to meet the needs of its member states in matters of social housing, vocational training and territorial development.

Social housing

In 1956, the Fund's Governor argued that the financing of social housing was in compliance with the statutory objectives on account of the scale of the needs in that field: "Publicly subsidized housing is at present one of Europe's chief problems […] Here the Resettlement Fund can find one means of specialising its activities, while rigorously abiding by its statutory objectives, provided, of course, that the necessary resources can be found"[9]. It is true that, just after the war, the shortage of housing was a lasting problem because of the scope of the destruction and because the states and the supranational organisations such as the OEEC, responsible for allocating Marshall Plan funds, gave priority to the reconstruction of productive infrastructure over the construction of housing. There is moreover no doubt that, from the very beginning, the priority given to this activity was motivated not only by social but also by political considerations. In effect, a shortage of housing can be "fraught with political consequences"[10] whereas "opportunities for workers to become house-owners also have obvious political importance"[11].

The financing of social housing therefore very quickly came to represent a major share of the Fund's activity. Between 1956 and 1992, the Fund contributed to financing the construction of over 300 000 dwellings. In all, social housing has represented approximately 20 % of the Fund's financings since its creation and this percentage has remained stable throughout its fifty years of activity. Nevertheless, it is true to say that this type of operation was more often than not targeted to a limited number of countries where the demand was very high, either because of the low level of state involvement in this field (in Italy, for example) or because of the scope of the needs, as in Turkey and later in Spain.



Social housing, Cyprus, 1963.

One of the specific characteristics of this sector of activity is that it englobes several of the Fund's missions: the construction of housing is not only valid in itself in that it provides for the improvement of the living conditions of those that are badly housed, but it is also an integral part of the Fund's missions to provide a welcome for refugees and migrants and to repair the damage suffered by populations affected by natural disasters. Statistics covering the projects financed between 1956 and 1992 show that 61 % of the housing financed during that period was concerned with the re-housing of populations, whereas 39 % came within the framework of the Fund's other objectives. Thus, the first project financed in Greece, in 1956, was a programme of aid facilitating access to home ownership for low-income craftsmen and for refugees.

A recurrent feature of the Fund's action concerning the financing of social housing has been the use of cooperative institutions as intermediaries. In Italy, for example, this type of organisation has been the Fund's main partner in the construction of housing. In particular, the Fund worked with the Istituto Nazionale di Credito per il Lavoro Italiano all Estero (ICLE), an organisation responsible for facilitating the resettlement of migrants returning to their country of origin, in particular by promoting access to home ownership. This was also the case in France, as evidenced by the Fund's support for cooperatives of Italian immigrant workers settled in the East of the country. The aim here was to “facilitate access to small private property ownership for Italian workers long settled in France, thereby enabling them to reunite the family group after often having been dispersed for a long time”[12]. These “beavers” received loans with which they were able to purchase land

and materials, their contribution being their work since it was the beneficiaries themselves who built the dwellings that were intended for them. In all, between 1956 and 1962, the Fund's support for these cooperatives of immigrant workers provided for the construction of 323 dwellings.

The financing of social housing has often been linked to the process of industrialisation and urbanisation of regions undergoing economic transition. Large scale operations have thus been financed by the Fund within the framework of projects for the development of industrial centres. This was largely the case in Italy where the Fund participated in financing urban development projects linked to the creation of new industrial sites by major companies belonging to state holdings such as IRI or ENI. In 1961, within the framework of the construction of the Gela petrochemical complex in Sicily, the Fund contributed to financing an integrated programme of 294 apartment blocks and 1 286 apartments intended for the staff at the new plant. In 1964, two operations of the same nature were co-financed.

Finally, the financing of social housing has often been the central focus of comprehensive urban renovation operations targeted to eliminating areas of insalubrious housing. Thus, the city of Valetta in Malta received the Fund's support for a large-scale operation of this type between 1974 and 1977 and, within the framework of a programme set up with the help of the World Health Organisation (WHO), the Turkish government received financing for the rehabilitation of insalubrious housing in the suburbs of Istanbul.

Vocational training

The creation of vocational training centres and higher education establishments devoting a large part of their activity to this field rapidly became one of the Fund's major priorities. To create new jobs and fight against unemployment or under-employment, people had to be trained for new tasks, especially since production techniques were undergoing increasingly rapid change and the number of unskilled jobs was constantly on the decline.



Vocational training centre, Ankara, Turkey, 1959.

The Fund thus lent its support to the migrant training programme set up by Italy in the aftermath of the Second World War within the framework of its emigration policy. In 1959, it therefore participated in the creation of an international centre providing vocational training for Italians wishing to emigrate within Europe or overseas. This new establishment, which received assistance from the ILO, also provided migrants with the basic language skills with which better to integrate the host countries. A similar operation for migrants to the United States was financed in Greece in 1963.

The projects financed by the Fund were also aimed at accompanying structural changes in the economy by facilitating the transfer of workers between rural and urban areas. The projects financed in this sector had various different objectives: vocational training for student-workers and instructors, accelerated training and vocational re-adaptation for adults. In 1959, in Turkey, the Fund contributed to setting up a vocational training centre attached to the Middle East Technical University, aimed at providing training for over 2 000 skilled workers per year.

After a decade of experience in this field, the Fund came to consider vocational training to be part of its specific missions, vital for the future. The crisis of the years 1970-1980 merely reinforced this view.

■ **Construction of country roads, Epirus region, Greece, 1959.**



Territorial development

As of 1959, the Fund became involved in projects concerned with territorial development. This approach stemmed from the realisation of the consequences of population transfers caused by economic change. In effect, rapid urbanisation posed problems in terms of housing, hygiene and children's schooling in the host urban areas. On the other hand, rural exodus caused the impoverishment and even the abandon of rural, forest and mountain areas. It was therefore important to support the regions worst affected by these population transfers, particularly since they tended to lag further behind in their development.

The development of the Epirus region in Greece was the first major project with which the Fund became associated as of 1959. Although in Greece at that time the annual income per inhabitant was 240 dollars against 1 000 dollars for Western Europe in general, in the Epirus region the figure was only 100 dollars. The region accumulated a number of handicaps: poor means of communication, small sized farms (2 hectares per family), only very basic electricity infrastructure, etc. For all these reasons, combined with the presence of refugees from Albania, the Fund decided to contribute 10 million dollars to an overall project coordinated by the OEEC and the European Productivity Agency. The objective was to improve the land in the lower Acheron valley and the Yannina basin: drainage, water supply, irrigation and construction of country roads.

Projects of a similar kind were also financed in Cyprus, in the most remote regions of Iceland and in Turkey. These were targeted to rural modernisation, the construction of pilot villages, the development of tourism, and the creation of craft enterprises or small industries. In addition to the desire to attenuate the tensions caused by high levels of rural exodus, in the 1970s there emerged the need to curb migrations to the more developed regions of Western Europe, increasingly less able to absorb them because of rising levels of unemployment.







■ **President Constantin Caramanlis voting, Athens, Greece, December 1974.**

■ **"Carnation revolution", Portugal, April 1974.**

■ **Crowning of Juan Carlos, Spain, November 1975.**

1976-1989:
greater solidarity for the benefit of a wider South

3

The late 1970s and the 1980s were a difficult period for Europe on account of the slowdown in economic growth. This period nevertheless corresponded to a phase of growth in the Fund's activities. This was a paradox in appearance only: the crisis affected the migratory movements that had enabled migrants from Southern Europe to find work in the richer North; it was characterised by the re-emergence of unemployment that was thought to have been on the way out, and it made the financing of social investments more difficult. Because of this, the services that the Resettlement Fund was able to offer appeared all the more useful and were consequently widely called upon. Moreover, the arrival of new member states and the substantial increase in the Fund's means during this period bore witness to a dynamic of solidarity that the difficulties of the moment could not call into question.

A solidarity-based Europe

New members

The late 1970s corresponded to a change in the Fund's size that announced a period of almost continuous growth. In effect, there were at that time a high number of new accessions: the Southern countries with Portugal in 1976 and Spain in 1978, the Northern countries with the Netherlands in 1978 and the Scandinavian countries, Sweden, Denmark and Norway in 1977 and 1978.

For the Fund, this succession of new members was of great importance: it meant “the building of a European community whose membership [was] now better distributed, […] the weight of the Mediterranean regions being balanced by that of the countries of northern Europe, including all the Scandinavian countries, whose high degree of social conscience”[13] was particularly noteworthy.

The return to democracy in Portugal, Spain and Greece in the mid 1970s and early 1980s, and the development of a strong social conscience in the North were thus considered to be closely linked, one consolidating the other. This attachment to North-

South solidarity was re-affirmed in the 1977 annual report with respect to Spain, to which the Fund promised “to give close attention to all problems within its scope and to provide any help likely to ensure her democratic progress and social stability”[14].

These new accessions also reinforced the relative weight of the member countries of the European Community, which almost all the new arrivals either belonged to or were in the process of joining. Being a member of a rapidly developing European Community was welcomed by the Fund's management, particularly at the time of the change-over of the Fund's accounts to the ecu in 1987. This change in accounting currency, admittedly motivated in part by the advantages linked to the search for better stability than that offered by the dollar, was above all intended as a manifestation of European identity: “The Council of Europe Resettlement Fund is based in Europe, its members are European, its function is European. When reporting on its activities, it has a duty to use a unit of account reflecting that to which it belongs”[15]. This decision constituted a “contribution to the building of the single European market”[16], but also offered an opportunity to reaffirm the Fund's specific mission: “Removing obstacles to the free movement of people, goods and capital is of course very useful but entails risks”[17], in particular the risk that the introduction of a big market might benefit only the richer regions. It was therefore the Fund's role to contribute to the construction of a Europe that would be an “area of democracy and freedom”[18] in which the prevailing focus would be, in particular, to pay “special attention to the material living conditions of the least advantaged populations”[19].

A requirement for solidarity

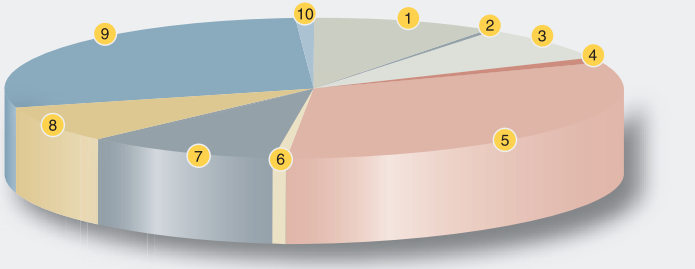
At the turn of the 1980s, an important process of reflection was therefore initiated concerning the Fund's missions and the means with which successfully to fulfil them. Resolution 354 of the Administrative Council, dated March 1979, followed on from the analyses of the Council of Europe around the notion of “balanced development” in Europe and of cooperation between the North and the South of the continent. These orientations were reaffirmed in a Resolution approved by the Fund's Administrative Council in 1987. Its preparation, which started during the second half of 1986, provided an opportunity for the

countries of Southern Europe to highlight the need for increased financial transfers towards the Southern part of the continent.

The argument in favour of a new capital increase, then under discussion, was based on the interdependent nature of relations between the North and the South of Europe: “The two groups of countries are more complementary rather than competitive as regards both the mix of goods and services produced and the mix of available factors of production”[20]. The transfers made for the benefit of the less developed countries had a positive impact on employment levels in the countries in Northern Europe on account of the exports they generated, whereas the development of the South contributed to “the return of the emigrant workers to their home countries”[21]. In more general terms, “the promotion of the goals of modernisation and rapid growth in the less developed countries of Europe will no doubt accelerate the process of political and economic integration of Europe”[22].

The Fund's strategy, as it was once again expressed in early 1989, thus came within the context of the growing unification of Western Europe, but also corresponded to a clearly stated requirement for solidarity. Indeed, these two dimensions were considered to be indissociable: “Europe is a composite of widely differing social and human realities calling for solidarity and special attention to the material living conditions of the least advantaged populations”[23].

Taking stock of the actions carried out since the end of the 1970s, the Fund's annual report once again placed the situation within a logic of North/South rebalancing: “In 1986, the per capita GNP of Mediterranean European countries varied between 1 100 dollars in Turkey and 4 860 dollars in Spain. Italy, with 8 550 dollars, marks the transition from Southern to Northern Europe with its intensely immediate experience of the North/South dichotomy. At the same time, the per capita GNP of the European Economic Community's richest country, Denmark, was 12 600 dollars”[24]. The needs identified for the years 1987-1991 therefore remained concentrated on the group of Southern European countries, that is to say certain founding members plus Spain and Portugal.



1	Cyprus	548	6	Malta	15
2	France	8	7	Portugal	473
3	Greece	477	8	Spain	338
4	Iceland	24	9	Turkey	1522
5	Italy	1952	10	Yugoslavia	48

Loans disbursed between 1977 and 1989 in million euros.

Total amount equivalent to 5 404 million euros.

A wider South

Solidarity in favour of the South was indeed the dominant feature of the 1980s, but of a wider South in comparison to the 1960s. The geographical breakdown of projects approved during the decade 1979-1988 was thus in line with the orientations taken in 1979: pre-eminence of the member states present at the very beginning of the Fund's history, and the recently growing importance of the Iberian Peninsula countries.

There thus emerged two main groups of countries which benefited from the Fund's operations. On the one hand, the historic beneficiary countries: Italy, which had called upon the Fund from the very beginning for the needs of its Mezzogiorno; Turkey, Greece and Cyprus, situated in the Eastern Mediterranean, a less developed region marked by internal tensions and by proximity to Eastern Europe under Soviet influence. On the other hand, Portugal and Spain, whose rapidly growing importance and high profile among the borrowers evidenced the Fund's capacity to mobilise in favour of the urgent needs of its new members. Portugal thus received financing from the Fund as of the late 1970s, whereas the first loans in favour of Spain were granted in 1983. By 1984, the two Iberian Peninsula countries already represented over 50 % of all the projects approved. Subsequently, the Fund started its first operations in favour of Yugoslavia. These were aimed at facilitating the resettlement of returning migrants, whose numbers were estimated at over 500 000 between the mid 1970s and the mid 1980s. The aid granted to “this non-aligned, developing Mediterranean country”[25] and associate member of the

Fund as of 1986 announced the orientations the Fund would be taking following the upheavals that occurred in Eastern Europe as of 1989.

Enhanced means

Increased own assets

Because of the constantly increasing number of projects presented to the Fund for financing, the problem of means was also posed. Increasing the Fund's capital, a recurrent theme from the beginning, became reality through a series of major operations which enabled the Fund to significantly develop its activity.

A first capital increase, voted in 1977 and effective as of 1st January 1979, brought the capital from 7.8 million dollars at the end of 1977 to approximately 17 million dollars, almost half of which was effectively paid up by the end of 1979. There was also a substantial increase in the Fund's reserves, which rose from 17.3 million dollars at the end of 1977 to a little over 46 million dollars by the end of 1981 on account of a steady and significant growth in profits (3 million dollars in 1977, 17 million in 1981). This substantial growth in own assets enabled the Fund to significantly increase the volume of projects financed, which rose from some 70 million dollars in 1977 to an average 216 million dollars between 1978 and 1981.

A second capital increase was approved in July 1981 and came into effect as of 31 December 1982. This brought the capital to 68.4 million dollars and was carried out partly through incorporation of reserves and partly through an increase in the subscription of member states as a guarantee. In all, by the end of 1982, the Fund's own assets had reached 106 million dollars. This new capital increase came within an overall process of reflection on the Fund's development prospects and on the level of resources it would need for the period 1982-1986. The established plan was to bring the level of financing to 350 million dollars per year, representing a 60 % increase in relation to the previous period, this level being made possible not only by the volume of own assets that had been reached but also by the profits anticipated for the period.



Issues launched by the Resettlement Fund, 1976 and 1981.

However, as of 1984, a new capital increase was envisaged - the limits of the Fund's capacity having been reached in spite of an increase in the profits paid into the reserves. The initial reflections in preparation for this capital increase aimed to bring the annual level of loans to 750 million dollars between 1987 and 1991. The decision to increase the capital then taken in June 1987 brought the capital to 225 million dollars at 1st January 1988. By the end of that same year, the reserves had reached 221 million dollars. In 1986 and 1988, the issue of two perpetual subordinated loans further increased the own assets by 365 million dollars, bringing them to over 800 million dollars by the end of 1988.

The decade of the 1980s thus represented a change in the Fund's size: its own assets and the loans financed during the year were multiplied by ten (in current dollars) between 1977 and 1988, while the loan outstanding increased from 334 million to over 6 billion dollars during the same period.

A strengthened monitoring policy

Up until the end of the 1970s, the Fund relied on the member states to pre-select and monitor the projects it financed. In effect, they were responsible for selecting the projects submitted for financing on the basis of general guidelines issued by the Fund. They also provided most of the information available to the Fund regarding project implementation, the Fund's role being limited to non-systematic on-site visits to the projects.

This kind of system, introduced when the Fund was still a small-scale structure anxious to limit its operating costs, could not however guarantee that the financings were put to best use. In particular, a review carried out during this period revealed that the loan requests received from member states were not fully in line with the overall guidelines set forth by the Fund.

In July 1978 a new system was therefore introduced for the selection and monitoring of projects, aimed at facilitating closer contacts between the borrowers and the Fund. Since that date, all requests for financing must contain elements of information attesting to the project's compliance with the Fund's missions and providing details of the provisions for its implementation. In addition to this, bi-annual progress reports as well as a completion report must be submitted for each project in order to ensure that the funds provided have been used in compliance with the objectives set out in the contract and "within a reasonable time"[26]. Lastly, the Fund reserves the right to undertake on-site visits or even more in-depth inspections should the borrowers fail to respect their obligations.

This monitoring procedure was nevertheless presented in 1988 as "simple and flexible"[27], to be perceived by the member states as providing support in drawing up their projects and not strictly speaking as an instrument of control. The 1987 annual report indicated that of the approximately 600 projects financed by the Fund since its inception, at that date only 200 projects had been the object of in-depth monitoring.

The 1988 annual report did however mention the need to strengthen these monitoring procedures: "Although considerable progress has been made in this respect since the end of the last decade, the expansion of activities in recent years would warrant more systematic

contact with Governments and beneficiaries in order to make it easier to find speedy, practical solutions to any problems which arise and to facilitate the presentation and planning of future projects"[28].

As of 1984, the Fund began to evaluate the social impact of the projects it financed. A review was therefore undertaken in order to assess the impact of each project or type of project in terms of jobs created, housing units built, hectares improved or vocational training courses provided. The approach was complex because of the multiplicity of the effects of each operation and the method used: an extrapolation was made from the most significant projects in order to determine the overall social impact of the projects financed during the period 1979-1984. In all, it emerged that the projects financed had, in six years, contributed to the creation of 220 000 jobs, the construction of 244 000 housing units, the improvement of 1 400 000 hectares of land and the training of 15 000 people. This type of analysis continued until 1987, and was subsequently replaced by a more qualitative classification of projects according to their anticipated social effects.

Faithful to social development

Traditional missions

An examination of the Fund's action during the early 1980s shows continuity in relation to its previous actions. The Fund had effectively remained faithful to its statutory priorities, namely aid to refugees and to victims of natural disasters.

It thus participated in the reconstruction of areas destroyed by natural disasters and notably earthquakes, which are frequent in the Mediterranean area. In particular, the Fund took action following the earthquakes in the Azores and in Southern Italy in 1980, in the Kars region in Turkey in 1983 and in the Kalamata region in Greece in 1986. It was also active after the floods that occurred in Spain in 1982 and in Portugal in 1983.

The Fund also continued to provide assistance to refugees, in particular in Portugal. Following the independence of Portugal's former African colonies, Angola and

■ **Earthquake, Erzurum, Turkey, 1983.**



■ **Floods, Portugal, 1983.**



■ **Earthquake, Kalamata, Turkey, 1986.**



Mozambique, in 1975-1976, Portugal received some 800 000 refugees in two years, representing the equivalent of one tenth of its population. The aid provided by the Portuguese government - emergency social aid, then reimbursable loans aimed at financing the resettlement of these refugees - represented a burden of approximately 700 million dollars between 1975 and 1979, to which the Fund contributed loans amounting to 100 million dollars. As in the past, the Fund placed its humanitarian action within a wider context here: by participating in financing the return of the refugees, it contributed to the social and political stability of the young democracy.

Also during this period, the Fund continued its action in the social housing sector, by building housing located on the outskirts of major urban areas in Turkey, by rehabilitating insalubrious housing in urban areas in Malta, and by implementing large-scale socially-oriented programmes in Portugal, Spain and Italy.

New priorities

During this same period, the Fund also continued to broaden its scope of action in order to still better fulfil its social mandate. The order of priority of the other fields of action thus bears witness to the priorities of the moment, linked to the economic problems that had been affecting Europe since 1974. The resorption of unemployment and vocational training were the first priorities, followed by rural development policies aimed at curbing emigration and rural exodus, but also urban policies (social housing, social infrastructure and the rehabilitation of insalubrious housing) and regional development. Resolution 934 of the Administrative Council in 1987 placed emphasis on the places of arrival and departure of migrants that more often than not corresponded to very disadvantaged or under-equipped urban or rural areas. The objective was not only to help with the resettlement of migrants who had chosen to return to their countries of origin, but also to facilitate the development of these regions through support for training and education policies, and to improve living conditions through policies to combat urban pollution. Moreover, these orientations were in line with the reflections resulting from the Council of Europe ministerial conferences held in Paris and Rome in 1983.

Developing employment

Anxious to respond to the social needs stemming from the economic crisis affecting Europe since the early 1970s, the Fund made the development of employment a priority field of action. This priority, asserted in 1979 in Resolution 354 of the Administrative Council, provided the Fund with an opportunity to highlight the link between economic action and social objectives, both which are at the very heart of its specific role: "The Fund's purpose is social development, even though it is achieved in most cases by interventions of an economic type, which are not an end but a means"[29]. Essentially, the aim was to preserve jobs or to create new ones rather than "to increase the profitability of business, which is however necessary"[30].

The emphasis placed on developing employment meant that the Fund not only remained active in certain sectors where it had been present from the very beginning, such as vocational training, but it also started to finance small and medium-sized businesses (SMEs) as well as infrastructure. This type of financing was widely used by Spain, Italy and Turkey for projects located in less developed regions, as well as for activities aimed at replacing industrial sectors in difficulty, such as the iron and steel industry and the chemical industry in Italy. In Turkey, as of 1974, the Fund thus financed the construction of a cotton mill and a factory for the development of forestry products, and, in 1975, a cotton oil refinery. This type of investment was further developed during the 1980s for the benefit of an electric engine factory in Turkey, a whole series of projects aimed at financing a group of 38 SMEs in Italy, between 1985 and 1987, and a similar programme in Portugal in 1982. Financings also went to promoting agricultural and livestock products in Spain and Turkey.

Improving infrastructure

Considering the improvement of social infrastructure to be one of the prerequisites for development, the Fund also made financing this type of equipment one of the main focuses for developing its activities in the 1980s. Projects approved for the financing of infrastructure over the period 1981-1991 thus represented 91 % of all the projects in this field since the Fund's inception. The projects financed during the decade of the 1980s can be broken down into agricultural and rural infrastructure (irrigation, rationalisation of production structures, for example), service infrastructure (roads, electricity, water) and industrial infrastructure (industrial parks).



■ **Vocational training centre, Portugal, 1963.**



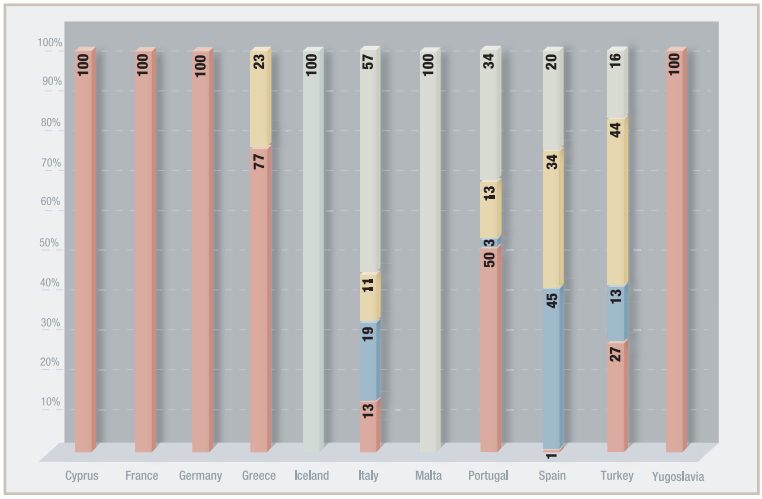
■ **Cotton mill, Turkey, 1974.**



■ **Social housing built following an earthquake, Friuli region, Italy, 1979.**

Projects approved between 1979 and 1989 by field of action.

- Housing and urban areas
- Infrastructures, regional development and rural modernisation
- Employment and productive sector
- Refugees, natural catastrophies and social infrastructures



In this sector, however, the choices were to a large extent specific to each country. In Spain, the choice was for agricultural infrastructure within the framework of large-scale irrigation programmes. In Greece, the main financings were for infrastructure linked to the protection of forests and for the road network, whereas in Cyprus financings were concerned with the road network, waste water treatment and irrigation. Turkey was the country that most called upon the Fund for the construction of infrastructure, within the framework of large-scale government programmes. Whereas the projects financed in the years 1960-1970 had mainly involved the improvement of living conditions in rural areas, the financings in the 1980s were targeted to electrification and to irrigation and drainage programmes. Thus, the Fund's loans went to large-scale programmes for the development of hydroelectric power in the Tigris and Euphrates valleys and for the treatment of waste water in Istanbul and Ankara. Generally speaking, these programmes were placed under the responsibility of major government agencies such as the Turkish Electricity Authority and the Ministry for Public Works and Housing.

Asserted differences

In broader terms, it is interesting to note that, although most of the Fund's financings went to Southern Europe during the decade of the 1980s in order to reduce the disparities with the North, borrower profiles differed greatly from one country to another. The reason for this phenomenon lies in the differences in the levels of development between countries and in the individual economic policies developed at national level. Turkey and Spain called largely upon the Fund to finance social infrastructure and aid to the productive sector; Italy mostly directed the loans it requested to the construction of housing, whereas Portugal and Greece called widely upon the Fund to finance social infrastructure, in particular in the vocational training sector.







■ **Fall of the Berlin Wall, Germany, 1989.**

■ **Dismantling of the "Iron Curtain", Hungary, 1989.**

■ **The rebuilt Mostar Bridge, Bosnia and Herzegovina, 2004.**

Since the 1990s: a development bank at the heart of a reunited Europe

4

The events which occured in 1989 in Eastern Europe, symbolised by the fall of the Berlin Wall, took the Fund back to its beginnings. In effect, they made it possible to carry out the project for which the Fund had been created: the construction of a vast democratic solidarity-based Europe; but they also gave rise to new movements of refugees, in particular towards Germany. The Fund took up the challenge posed by the reunification of the continent: it undertook to renew its methods of functioning so as to best be able to accompany the Central and Eastern European countries in their transition. It thus became a true development bank, as evidenced by the change in name which took place in 1999, the Resettlement Fund being then renamed Council of Europe Development Bank (CEB).

An historic challenge

The reunification of Europe

"1989 will go down as the year in which the 'European family' came together, as Churchill had urged as early as 1946"[31]. However, "the hope that the ideal of a fraternal Europe based on the same principles of humanism, democracy and freedom may be made a reality […] will take time, it will be difficult, it will require the people to make sacrifices and will create some political instability"[32]. There was thus never any doubt as to the imperative need for the Fund to participate in the reconstruction of the Eastern European countries. But the financial situation of these countries, combined with the relatively slow pace of their accession to the Fund, slowed that commitment.

In effect, the mobilisation of increased means in favour of Central and Eastern Europe was not obvious. As of the early 1990s, the Fund therefore endeavoured to determine how it might make loans to these countries, which were already heavily indebted, without running the risk of jeopardising the Fund's financial equilibrium. The admittedly exceptional situation of the countries of former Yugoslavia, which had received loans in the late 1980s, is an example of the risks incurred: this country's debt, contracted in respect of the Fund between 1987 and 1991, had to be shared between the successor



Rom refugees having fled the war in Yugoslavia, 1999.

countries through a series of agreements signed as of 1996 which provided for resumption of the debt servicing and the payment of arrears. Reflection on this question was all the more necessary because the countries concerned had very significant needs. The estimations made during the first half of the 1990s for a group of seven countries (Bulgaria, Czechoslovakia, ex-GDR, Hungary, Poland, Romania and Yugoslavia) indicated that the Fund's commitment could reach 500 million ecus over five years.

It should be added that the process of accession of the transition countries to the Council of Europe and then to the Fund was more gradual than had originally been anticipated. It was initially expected that they would join relatively rapidly, but in fact accession took place mainly in the second half of the 1990s: Slovenia and Bulgaria in 1994, Lithuania and Romania in 1996, Croatia and “the former Yugoslav Republic of Macedonia” in 1997, Estonia, Hungary, Latvia, Moldova, Poland and Slovakia in 1998, the Czech Republic and Albania in 1999, Bosnia and Herzegovina in 2003, Serbia and Montenegro in 2004, and then Serbia in 2006.

In fact, it was only when the new management team took over in December 1993, headed by Governor Raphaël Alomar, that the Fund effectively engaged in a reconstruction effort commensurate with the historic challenges facing it. To increase the number of loans granted to Central and Eastern Europe was again defined as a priority in 1994 and more so again in 1995, when it was presented as the main focus of the

Fund's development. The medium-term Action Plan 1997-2001 provided for an increase in commitments in respect of the group of transition countries and this increase was confirmed in the revised version of the Plan in 1999. The Development Plan 2005-2009 reconfirmed this new priority since it provided for 50 % of the loans to be devoted to a group of 19 target countries* for the most part situated in Central and South Eastern Europe.

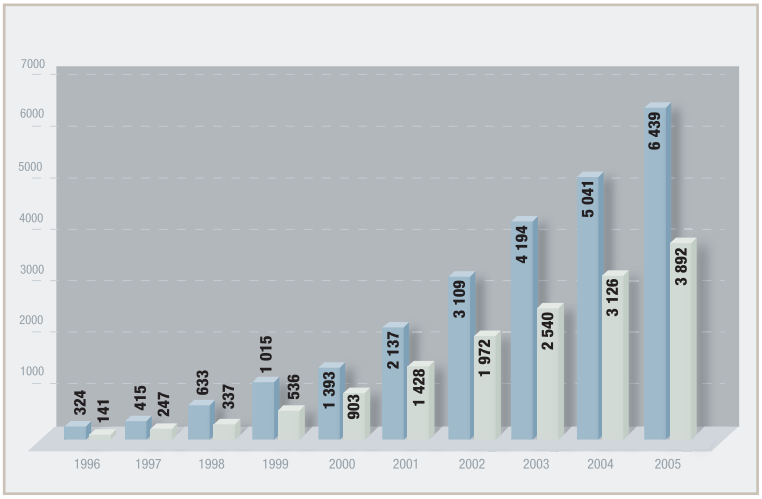
The first beneficiaries of the Fund's loans were refugees from the Central European countries, notably in Germany as of 1989, then refugees from the war in Yugoslavia. Once again assuming the mission that had led to its creation in 1956, the Fund contributed to the integration of some 720 000 migrants arriving in Germany as of 1989 through a loan to Kreditanstalt für Wiederaufbau for the creation of social housing. That same year, it contributed to the integration, in Turkey, of some 300 000 refugees coming from Bulgaria, once again by contributing to the construction of social housing. In 1990, it also participated in the reception in Greece of 100 000 refugees of Greek origin from the USSR, by granting loans for the construction of transit villages in particular.

The volume of disbursements now followed the rhythm of accessions to the Fund: 7 projects were approved or financed in 1996, but it was only from 1999 on that the transition countries really began to represent a significant share of the activity with 5.4 % of the year's disbursements. From that point on, this proportion grew rapidly. Loans to the Central and Eastern European countries thus reached 15.9 % of all the Fund's commitments for the period 2000-2004. In compliance with the Development Plan 2005-2009, there was a further increase in 2005 when 51 % of all disbursements and 56 % of the total volume of projects approved were directed to the target group countries. In all, by the end of 2005, the accumulated volume of loans in favour of the target group countries amounted to 6.4 billion euros, over half of which had already been disbursed.

Redeployment of the activity

The new priority given to Central and Eastern Europe in transition did not, however, mean abandoning the other major geographical areas of the continent.

* Composition of the target group: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Moldova, Poland, Slovak Republic, Romania, Serbia, Slovenia, "the former Yugoslav Republic of Macedonia" and Turkey.



Progression of activities in favour of target group countries between 1996 and 2006.

In cumulative amounts and million euros.

Approvals

Disbursements

Although the new political situation in the early 1990s represented a challenge for the Fund, which wanted to accompany the movement of European reunification by providing support for the new democracies in the East of the continent, it was out of the question that it should abandon its previous lines of focus. To the North-South rebalance that had been the priority in the 1980s was thus added “a 'new frontier' for social and economic development”[33] in the East. The Fund's action would thus have “to work simultaneously in two directions” [34].

In fact, the Fund's financings remained for the most part targeted to Southern Europe up until 1993, concentrated on a small number of countries. Turkey, Italy, Greece and Cyprus thus represented 92 % of the total in 1991. The Bank's effort to rebalance the breakdown of its loans, undertaken as of 1995, was first made in favour of the Western European countries. This was a paradox in appearance only, the objective being not just to redeploy to the East but also to achieve diversification “by extending loans and other operations to a wider geographical area”[35]. This increase in loans to the Western European countries was first for the benefit of Germany through loans granted as of 1995 and targeted to its new Länder. The Fund thus succeeded in increasing its presence in Western Europe whilst simultaneously contributing to the reconstruction of Eastern Europe. The diversification of the activity continued in 1996 with operations in Belgium and Finland while Germany and France, neither of which had hitherto called on the Fund's services to any great extent, took up over half of the loans approved in 1997. From that date on, the trend in the geographical breakdown of loans confirmed the Fund's determination to find a balance between its traditional support for Southern



Irrigation works done in collaboration with the Institute for Reform and Agrarian Development (IRYDA), Spain, 1992.

Europe, its desire to be present in the North West of the continent and the new priority given to Central and Eastern Europe.

A fully fledged financial institution

A new name

There had long been little doubt that the Fund's original name, Council of Europe Resettlement Fund for National Refugees and Over-Population in Europe, no longer corresponded to the reality of the institution's missions or to its operating methods. In effect, the Fund's scope of action had for many years no longer been limited to the field of refugees and surplus populations alone. Likewise, the Fund's operating methods now fully resembled those of an international financial institution. Indeed, since a reform of its Articles of Agreement which entered into force in 1997, the Fund's organisational structure was even better adapted to its mandate. In particular, the institution now had an Executive Committee, composed of members of the Administrative Council, whose purpose was to ensure increasingly close monitoring of the activity. Likewise, following a revision adopted in 1996, the legal framework applicable to the Fund's staff now conformed with the specific characteristics of a financial establishment. A change of name was therefore fully justified.

In order to more clearly indicate the nature of the institution, the name Council of Europe Social Development Fund had already come into general usage in the late 1980s. The official new name of Council of Europe Development Bank (CEB) was finally adopted on 1 November 1999. The Bank thus affirmed its identity not only in relation to institutions of a different nature, such as the European Union's Structural Funds whose principles were not at all the same, but also in relation to other development banks in respect of which it affirmed its European identity and its specific social purpose.

A tighter prudential framework

When the Fund's capital was increased once again in October 1990, the aim was clearly to cope with the needs linked to the new context in Eastern Europe. “An exceptional situation calls for exceptional responses”[36], it was stated in early 1990, just as the moment had come to decide on a new increase in own assets. The measures adopted provided for the incorporation of 49 million euros into the reserves and an increase of 1 billion euros in guarantees. In all, with the incorporation of the subordinated borrowings, the bank's own assets had reached almost 2 billion euros by the beginning of 1992.

A new capital increase was decided in November 1999, combining guarantees by the member states and the incorporation of 200 million euros of reserves, bringing the Bank's own assets from 2.5 to over 4.5 billion euros by the end of 2001. From that date they continued to increase, reaching 4.6 billion euros by the end of 2005. Thanks to this regular growth in the Bank's own assets, the loan outstanding also increased, going from 5.4 billion euros in 1989 to 11.5 billion in 2005, which represented the highest level ever reached since the CEB's inception.

Primarily motivated by the emergence of new needs, the increase in own assets was also made necessary by the introduction of new prudential rules. The liberalisation of the money markets in the 1980s combined with their increasing volatility led the central banks to elaborate, under the aegis of the Bank for International Settlements, a body of rules aimed at providing the best guarantees as to the solvency of financial institutions.

Between 1979 and 1988, the Cooke Committee, named after the Director of the Bank of England who chaired the group of experts from the central banks entrusted with the task of setting these rules, established a series of prudential ratios. The capital increase decided on by the Fund in 1988, combined with the issue of two subordinated borrowings represented a first response to these new prudential standards. At that time, the Fund opted for tighter application of these standards in order to consolidate its credit and so obtain the most favourable terms possible for its borrowings in the markets. Whereas the Cooke Committee rules required a risk/asset ratio of at least 8%, with half the assets constituted by capital and reserves and the rest by additional elements such as subordinated borrowings, the Fund introduced stricter standards which excluded subordinated borrowings from the management ratios it applied.

This rigorous prudential policy was also linked to the increasing role of the rating agencies whose ratings determines the terms on which companies and banks have access to the markets. In 1988, the ratings awarded to the Fund's long-term borrowings by Moody's and Standard & Poor's were respectively AA1 and AA+. Since that date, under a management team that was renewed in 1993, the Bank has endeavoured to adhere ever more closely to the most rigorous prudential standards as well as to best practices. In 1997, it therefore set up a Risk Management Department so as to be able to better monitor its liquidity, interest rate and currency risks. The policy adopted at the time of the capital increase decided in the autumn of 1999 further tightened the prudential rules. The gearing ratio was gradually brought from a ceiling of 6 to 2.5, which it reached by the end of 2004. On the other hand, by the end of 2001, the indebtedness ratio had been brought to 2.9 for a maximum requirement of 4. The tightening of the prudential ratios, combined with diversification of the risks linked to the geographical rebalancing of the loan portfolio, enabled the Bank to achieve an objective towards which it had been continuously striving: to be awarded the AAA rating by the agencies Moody's, Standard & Poor's and Fitch Ratings, which has effectively been the case since 2000.

The objectives set by the Development Plan 2005-2009 aimed to consolidate the results of this prudential policy. On the assumption that no further call will be made on the



Some "tombstones" of banking issues.

shareholders, the loan outstanding will have to increase according to the effective increase in own assets, that is to say the incorporation of profits into the reserves, representing a potential outstanding of 11 billion dollars in 2004 and 13 billion dollars in 2009. Moreover, the Bank's prudential policy was amended in 2004 in compliance with the new Basel Committee recommendations (Basel II). This meant changing from an activity volume control logic (gearing ratio principle) to a risk control logic. The new prudential framework is therefore structured around three complementary criteria: limiting the default risk to only the available own assets, limiting the outstanding on the most risky counterparties (below investment grade) in the loan portfolio, and tightening the liquidity ratio so that the Bank is always in a position to meet its commitments.

A diversified borrowing policy

The development of the institution's activity led it to call on the international markets on a regular basis, in particular for financings in ecus. Indeed, as of the 1980s, the Fund followed with interest the emergence of the future European currency. It called upon the ecu market for the first time in 1982, when it was just starting to come into commercial use. The following years saw the development of its operations in ecus since they represented 2 % of the Fund's borrowings in 1984, 15 % in 1985, and 20 % in 1986. For the Fund, these operations effectively provided a means of limiting the interest and exchange rate variances that prevailed in the international market. The monetary union process and the introduction of the euro in the 1990s opened up financial markets that

had previously been closed to the Fund's issues. Moreover, the introduction of the single currency facilitated the creation of a vast pan-European area of financial stability to which the Fund had aspired since the 1980s.

At the time of the change-over to the euro in January 1999, the Fund immediately launched a 500-million-euro issue, the first of importance to be made by a multilateral bank in that currency. At the same time, the institution conducted a funding policy that involved seeking out the best opportunities and deliberately diversifying. Thus, the growing needs of the early 1980s and the high cost of the dollar market due to the policy of high interest rates in the United States between 1980 and 1985 led the Fund, in 1981, to make its first transaction on the Japanese market, which was just starting to open up internationally. It continued to use this market on a regular basis in the years that followed. Later on, the increase in interest rates in the dollar market led the Bank once again to call on this market. In addition to using the main currency markets, the Bank quickly started to diversify its borrowing currencies, with a first issue in Czech crowns in 1997, for example, and then in Polish zlotys and Greek drachmas in 1998.

A deeper social vocation

A renewed logic of action

In the early 1990s, the institution went through a growth and management crisis. On the one hand, the volume of activity fell sharply between 1991 and 1993: the amount of loans disbursed decreased from 987 million ecus to 508 million, and projects approved dropped from 1 183 million ecus to 850 million. On the other hand, the project monitoring procedures proved insufficient, as evidenced by a review of a sampling of projects carried out between 1985 and 1993, and this led to numerous dysfunctionings: low compliance of the programmes financed with the statutory objectives, overrun of schedules and costs as well as a differences between the rate of disbursement and that of expenditure. In order to remedy this situation, a substantial effort of restructuring was undertaken, marked by the arrival of a new management team.



Second Summit of the Council of Europe, Strasbourg, France, 1997.

One of the principal measures adopted by this new management team as of 1994 was to refocus the Fund's action on a smaller number of sectors. The aim was to concentrate on the Fund's two priority areas, namely aid to refugees and to persons affected by natural or ecological disasters, and sectors concerned with the resorption of unemployment, increasing the amount of available social housing and the creation of social infrastructure. In 1997, following the second Council of Europe Summit held in Strasbourg, two priority lines of focus were established: redeployment towards Central and Eastern Europe, job creation and social cohesion in Europe. This re-focussing of the Fund's mission was completed by the introduction of new criteria for the selection of projects and by the implementation of more rigorous loan monitoring procedures. Moreover, the Fund undertook a rationalisation of its internal organisation which led to the creation of a Directorate General for Loans grouping together all its loans and projects functions.

The gradual implementation of this substantial restructuring effort led, in a first stage, to a new drop in activity. In 1994, the loans disbursed amounted to 245 million ecus, whereas the stock of projects awaiting financing was decreased as a result of the new priorities. However, as of 1995, this strategy started to produce a revival of the activity, refocused in terms of missions and diversified in terms of geographical breakdown. Since then, the Bank's activity has continued its steady development, in compliance with its social mandate. In 2005, the amount of projects approved thus reached 2.5 billion euros spread over 20 countries of operations, including 14 target group



Housing for former deportees back from ex-USSR financed with the help of the Selective Trust Account, Lithuania, 1997.

countries. During that same year, the volume of disbursements reached a total of 1.6 billion euros, half of which were in favour of the target group countries.

The Bank now offers its borrowers very advantageous interest rates thanks to the excellent borrowing terms it enjoys in the financial markets and the low intermediation margin it applies. Since the mid 1990s, the CEB has also broadened its loan offers in order better to meet the needs of its borrowers. Hitherto its loans were mainly fixed-rate loans over ten years with a five-year deferred reimbursement period, whereas now it offers loans with more diverse maturities carrying modulable deferred amortization periods. Thus, the possibility offered to borrowers to contract very long-maturity loans facilitates the implementation of social investments with long-term profitability. Over and above these favourable loan conditions, the Bank has been granting interest-rate subsidies through the Selective Trust Account. Set up in 1995, the Selective Trust Account is fed by drawing on the Bank's annual profits. These interest-rate subsidies are reserved for projects involving the CEB's high priority objectives. They represent a real social dividend, and are for the benefit of the transition countries only. The Selective Trust Account has also been used, exceptionally, to make donations, such as the one granted in 2002 to Bosnia and Herzegovina for the reconstruction of the Mostar Bridge, included on Unesco's World Heritage List.

The Bank is also continuously enhancing its assistance and monitoring role throughout the project life cycle so as to optimise the social impact of projects. Upstream of

projects, the Bank makes increasing use not only of country strategies, prepared in close cooperation with the authorities concerned in order to establish a medium and long-term activity plan, but also of sectoral policies which structure the institution's action to promote sustainable social development. From the project appraisal up to the completion stages, the CEB is continually strengthening its institutional support, in particular during the crucial phases of project identification and appraisal, but also throughout the loan disbursement period. Downstream of projects, since 2002, the Bank has had an ex post evaluation function, which evaluates the medium-term social impact of projects in order to improve the quality of both its ongoing and future actions.

Lastly, since the mid 1990s, the CEB has conducted a policy of cooperation with numerous international institutions, first and foremost the European Commission, the United Nations specialised agencies and the other international financial institutions. Through this policy of partnerships, the CEB has been able to widen its scope of action, leverage its expertise and affirm its specific status as a social development bank in Europe.

Three sectoral lines of action

Since 2003, the Bank has structured its various different sectors of activity in favour of social development around three sectoral lines of action, namely: the strengthening of social integration, responsible management of the environment and the development of human capital. This approach responds to a dual requirement: on the one hand, to ensure better visibility for the Bank's activity by grouping together its current fields of eligibility in a more homogeneous manner, and on the other hand to assert the institution's mission to promote sustainable social development.

Strengthening of social integration
To contribute to strengthening social integration and to fight against exclusion means taking action in favour of refugees, migrants and displaced persons, increasing available social housing, improving living conditions in urban and rural areas, as well as creating or preserving jobs.

■ **Housing in favor of refugees, Croatia, 2005.**



The initiatives taken by the Bank in order to strengthen social integration in its member states are therefore many and varied. In terms of action in favour of refugees, for example, in 2003 the Bank financed in Croatia an operation involving the reconstruction of some 4 000 dwellings. Concerning social housing, in 2002, the CEB approved a loan in favour of local authorities in Denmark to provide financing for the construction and renovation of public housing for the elderly throughout the country. In terms of improving living conditions in urban and rural areas, in 2000, the Bank financed the construction of line extensions to the Madrid underground in order to facilitate travel to employment catchment areas, university facilities and hospital centres for residents of disadvantaged neighbourhoods. Concerning employment, in 2003, the CEB supported a programme aimed, in particular, at creating jobs in SMEs in Silesia, a region of Poland that had seen a substantial increase in long-term unemployment during the 1990s following the restructuring of its heavy industry.

Over the period 2001-2005, this was the Bank's most important line of action, amounting to an accumulated total of 4.8 billion euros in terms of projects approved, which represents almost 50 % of all projects since 2001. Over the same period, loans disbursed for the promotion of social integration amounted to an accumulated total of almost 4 billion euros, representing 50 % of all disbursements made since 2001.



■ **Prevention of floods of the Tisza river within the framework of the Vásárhelyi Plan, Hungary, 2005.**

Management of the environment

To contribute to responsible management of the environment means, at operational level, taking action in favour of regions affected by natural or ecological disasters, contributing to the construction and renovation of water supply and waste treatment infrastructure, to the production of clean and renewable energies as well as to the protection and rehabilitation of historic heritage. In parallel to these specific actions, the Bank systematically takes into consideration the environmental aspects of all the projects it appraises.

The Bank's projects in this area here again represent a wide variety of sectors and geographical areas. Following the 1998 floods in Hungary, for example, as of 1999 and again in 2004 the Bank approved the financing of infrastructure aimed at improving flood prevention. In terms of improving the water supply infrastructure, in 1999, the CEB financed the construction of sewage, drainage and irrigation networks as well as a water purification plant in the Paphos region, in Cyprus. Concerning the production of clean energy, in 2005, the CEB supported an investment programme aimed at promoting energy saving and curbing harmful emissions in the new German Länder. Finally, in terms of rehabilitation of historic heritage, in 2003, the Bank financed restoration of the Athenaeum in Bucharest, the most important concert hall in Romania and one of the symbols of Romanian cultural and artistic life.



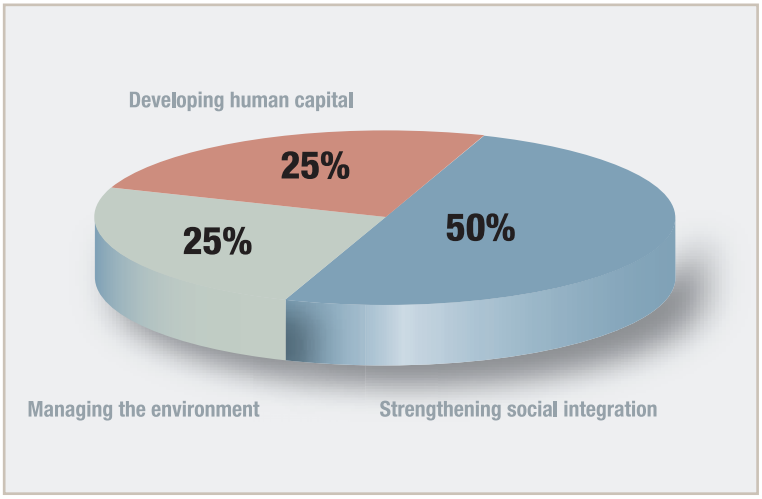
■ **Training of apprentices within SMEs, Land of Bavaria, Germany, 1998.**

Loans approved in favour of environmental management over the period 2001-2005 represented an accumulated amount of 3 billion euros. Over the same period, this line of action represented an accumulated amount of almost 2 billion euros in term of loans disbursed, that is to say 25 % of all disbursements.

Development of human capital

To support the development of human capital involves taking action in the key fields of education and health. The CEB thus finances the construction or modernisation of educational infrastructure and the provision of teaching equipment at all levels of the education system, including primary schools, secondary schools and universities. In addition to this, the Bank also contributes to the construction, renovation and modernisation of medical infrastructure such as neighbourhood healthcare centres, hospitals, university hospital centres or specialised centres for the elderly or handicapped.

For example, in 1998, in the Land of Bavaria in Germany, the Fund participated in a programme for the training of unqualified young people within the framework of traineeships in SMEs, enabling over 10 0000 apprenticeship positions to be created. In 1997, 1999 and 2004, the CEB also contributed to several projects aimed at improving living conditions for abandoned or ill-treated children in Romania and Lithuania, in particular through the creation or rehabilitation of reception structures. Lastly, in 2003, the Bank financed investments in health infrastructure (healthcare services and hospital



Loans disbursed between 2001 and 2005. Allocation by sectoral lign of action.

Education and vocational training, Health

Natural or ecological disasters, Protection of the environment, Historic heritage

Refugees and migrants, Social housing, Job creation, Rural and urban modernisation

infrastructure) and social infrastructure (long-stay centres, centres for the elderly, palliative care centres, etc.) in Catalonia.

In all, over the period 2001-2005, this action line represented an accumulated amount of over 2 billion euros in terms of projects approved. In parallel to this, since 2001, the accumulated amount of projects disbursed for the development of human capital is 2 billion euros, representing 25 % of all disbursements made in the last five years.

In the future, CEB will continue to enhance its social mandate, as structured around these three sectoral lines of action and as comforted by the opinions rendered by the Secretary General of the Council of Europe on the admissibility of each project. In particular, in compliance with the conclusions of the Third Summit of Heads of State and Government of the Council of Europe, held in Warsaw, Poland in 2005, the Bank will integrate new missions such as the training of magistrates or the financing of administrative and judicial services infrastructure. On the other hand, it will preserve unchanged the methods of action that it has used since its inception. By stating that any broadening of its mandate would have to be carried out “through its own means of action”[37], the Heads of State and Government in fact explicitly invited the Bank to consider its methods of action as intangible, whether it be the strictly banking nature of its operations or the beneficiaries of those operations. This naturally confirms the institution in its quest for a fair balance between financial soundness and social purpose.

Conclusion

In all, since its creation in 1956, the Council of Europe Development Bank has sought unceasingly to enhance its social mandate. In order to still better meet the expectations of its member states, it has, in particular, gradually widened its scope of action both in geographical and sectoral terms. The increase in the number of its member states, from 8 in 1956 to 38 at the end of 2005, was effectively accompanied by a geographical redeployment of the institution's activity. Up to the fall of the Berlin Wall, the Bank was thus particularly active in the countries in the South of the continent. At the present time, it focuses a preponderant share of its action on the Central and Eastern European countries. At the same time, the increasing diversity of the needs of its member states in the social field has led the Bank to broaden its scope of action. So, although aid to refugees, migrants and victims of natural or environmental disasters remains a statutory priority, the CEB now has a mandate to contribute more generally to strengthening social cohesion in Europe.

> “Originally created as a humanitarian instrument dedicated to helping refugees, the CEB has thus become a true development bank, committed to serving social cohesion in Europe.”

The CEB's deepening social commitment has been accompanied by constant improvements in its financial base and its operating methods. Thanks to rigorous management and endowments from the member states, the Bank has substantially increased its capital. Originally endowed with a capital equivalent to 5.7 million euros, the Bank now has own assets amounting to 4.6 billion euros. At the same time, the CEB has further strengthened its prudential policy in order to meet the strictest requirements in such matters. In particular, in 2004, it introduced a new prudential framework based on the recommendations of the Basel Committee, notably in matters of capital adequacy. Thanks to this continuous



consolidation of its means of action, the Bank has been able to pay out 23 billion euros in loans since its inception while preserving an excellent level of financial soundness, as evidenced by the AAA rating it has been awarded by the agencies Moody's, Standard & Poor's and Fitch Ratings since 2000.

Although during its half century of activity the CEB has enhanced its social vocation and strengthened its means of action, two of its operating principles have nevertheless remained unchanged. On the one hand, the Bank does not ask for any annual contribution from its member states. In effect, the institution's activity is based on the paid-up capital, reserves and the resources it raises in the financial markets. On the other hand, the institution has endeavoured to maintain a modest sized structure in relation to its activity volumes. It is thus able to keep its intermediation cost to a minimum and to respond swiftly to the needs of its member states, in particular in emergency situations.

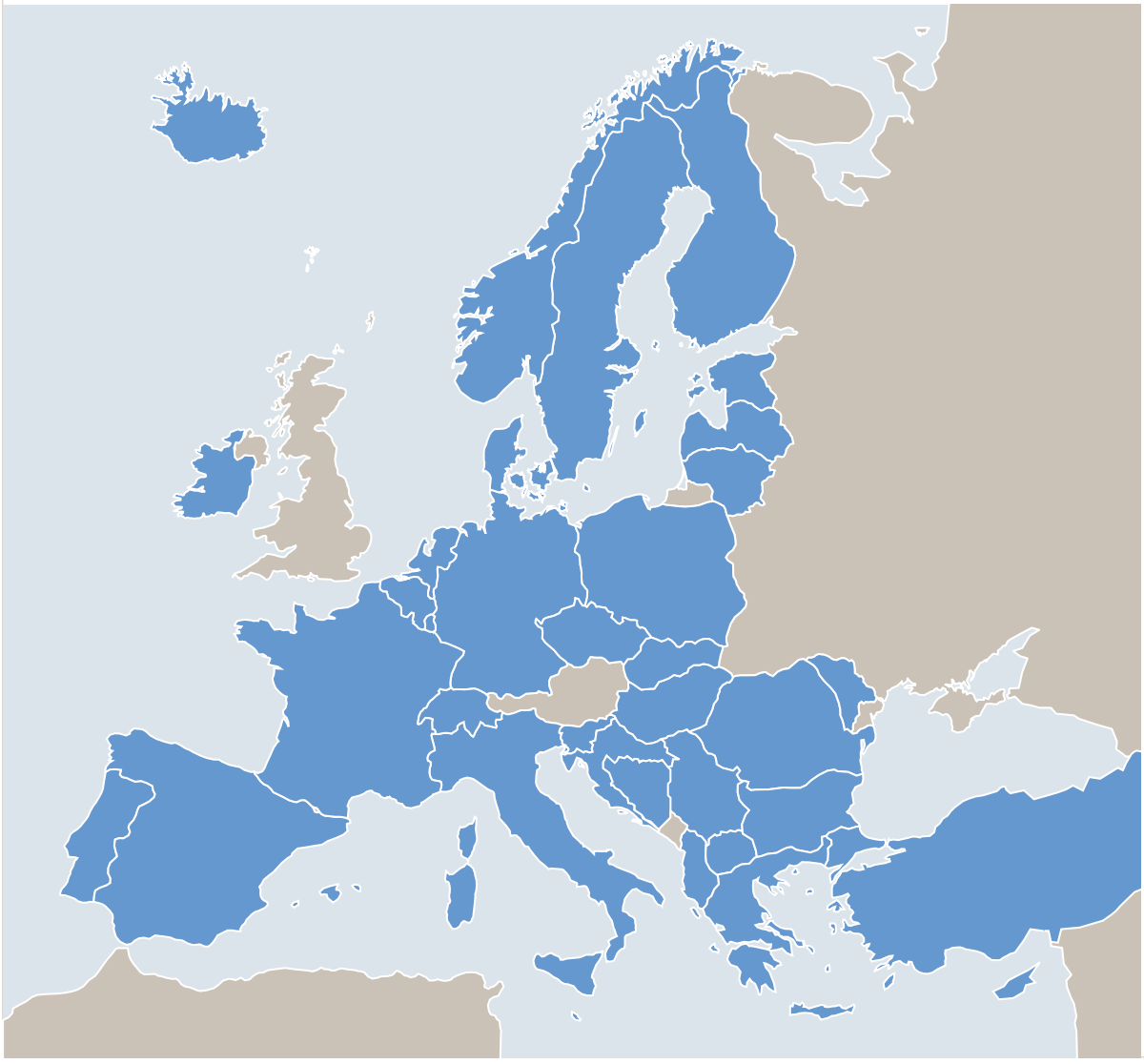
Originally created as a humanitarian instrument dedicated to helping refugees, the CEB has thus become a true development bank, committed to serving social cohesion in Europe. On the strength of this transformation, in future the Bank will continue to enhance its vocation, in close cooperation with the Council of Europe and respectful of its founding values.

Notes for the reader

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2. Council of Europe, Forum, n° 3, 1981, p. 2
3. Ibidem
4. Annals of Europe, “Are there to many men?” n° 8, 1964, p. 9
5. Annual report 1957, p. 13
6. Annual report 1966, p. 10
7. Annual report 1967, p. 8-9
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9. Annual report 1957, p. 42-43
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11. Ibidem, p. 43
12. Annual report 1959
13. Annual report 1977, p. 10
14. Ibidem, p. 10
15. Annual report 1987, p. 16
16. Ibidem, p. 16
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18. Ibidem, p. 23
19. Ibidem, p. 23
20. Memorandum to the Governing Body and the Administrative Council, 373-594, 1986, p. 3
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26. Memorandum to the Administrative Council, 462, 1978, p. 2
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28. Annual report 1988, p. 22
29. Annual report 1979, p. 19
30. Memorandum to the Governing Board and the Administrative Council, 413-644, 1988, p. 5
31. Annual report 1989, p. 7
32. Ibidem, p. 7
33. Ibidem, p. 22
34. Ibidem, p. 24
35. Annual report 1994, p. 8
36. Annual report 1989, p. 24
37. Action Plan of the Council of Europe's Third Summit of Heads of State and Government, 2005

Appendices

The bank's member states
by year of accession



Belgium	1956	*Founding member*
France	1956	*Founding member*
Germany	1956	*Founding member*
Italy	1956	*Founding member*
Greece	1956	*Founding member*
Turkey	1956	*Founding member*
Iceland	1956	*Founding member*
Luxembourg	1956	*Founding member*

Cyprus	1962
Holy See	1973
Malta	1973
Switzerland	1974
Liechtenstein	1976
Portugal	1976
Sweden	1977
Netherlands	1978
Norway	1978
Spain	1978
Denmark	1978
San Marino	1989
Finland	1991
Slovenia	1994
Bulgaria	1994
Lithuania	1996
Romania	1996
Croatia	1997
“the former Yugoslav Republic of Macedonia”	1997
Hungary	1998
Estonia	1998
Moldova	1998
Poland	1998
Latvia	1998
Slovak Republic	1998
Czech Republic	1999
Albania	1999
Bosnia and Herzegovina	2003
Serbia and Montenegro	2004
Ireland	2004
Serbia	2006

Project cycle

5 Completion

Presentation of a report giving a full description of the works carried out and the objectives achieved within the framework of the project.

4 Disbursements and Monitoring

Evaluation of the project's correct implementation and of the appropriate use of the funds disbursed.

3 Approval by the Administrative Council

After examination, the project is approved by the Administrative Council.

6 Ex Post Evaluation

Evaluation of the impact and sustainability of the project in order to assess performance and quality.

1 Identification

During this stage, a file is drawn up bringing together all the elements needed to define the project's objectives and the means with which to achieve them.

2 Appraisal

Evaluation of the project, its social objectives and its financial and technical feasibility, with a view to its submission to the Administrative Council.

Chairmen of the Governing Board

Pierre Schneiter	1956-1979
Eugène Claudius-Petit	1979-1989
Jacques Piette	1990
Paule Dufour	1990-1993
Romeo dalla Chiesa	1993-1995
Giorgio Ratti	1996-1999
Kari Nars	1999-2002
Orhan Güvenen	2002-2005
Lars Kolte	since 2005

Governors

René Plas	1956-1968
Charles-Henri Bonfils	1968-1978
Roger Vanden Branden	1979-1993
Raphaël Alomar	since 1993

Chairmen of the Administrative Council

Werner Middelman	1956-1961
Wilhem von Aulock	1962-1971
Wolfgang Rutschke	1972-1974
Siegfried Fröhlich	1975-1993
Kari Nars	1994-1999
Heinrich Harries	1999-2002
Rainer Steckhan	since 2005

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